

TOWN OF BERLIN, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

TOWN OF BERLIN, MARYLAND

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
Town of Berlin, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Maryland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013, on our consideration of the Town of Berlin, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Berlin, Maryland's internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
November 4, 2013

TOWN OF BERLIN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

This section of the Town of Berlin, Maryland's (the "Town") annual report presents our discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the Town's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four financial parts - *management's discussion and analysis* (this section), the *basic financial statements, required supplementary information*, and an optional section that presents schedules of revenues and expenses. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Town's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Town, reporting the Town's operations in more detail than the Government-wide financial statements.
 - The *governmental funds* statements tell how general government services like general government, public safety, public works, parks, recreation, culture, and community development were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the electric department, the water and sewer system, and the stormwater system.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. In addition to these required elements, we have included schedules of selected revenues and expenditures.

Government-wide financial statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's *net position* and how it has changed. Net position - the difference between the Town's assets and liabilities - is one way to measure the Town's financial health, or position. Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Town you need to consider additional nonfinancial factors such as changes in the property tax base and the condition of the Town's roads and electric, water, and sewer systems.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Town's basic services are included here, such as the legislative and executive government, finance administration, police, fire, public works, parks, and community development. Property taxes and state and federal grants finance most of these activities.

- *Business-type activities* – The Town charges fees to customers to help it cover the costs of certain services it provides. The Town's electric, water, sewer, and stormwater departments are included here.

Fund financial statements

The fund financial statements provide more detailed information about the Town's most significant *funds* - not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes. The Town has two kinds of funds:

- *Governmental funds* – Most of the Town's basic services are included in governmental funds which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide financial statements, provide both long- and short-term financial information. In fact, the Town's *enterprise funds* are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position at June 30, 2013 was \$31,194,000. Of this total, \$22,617,000 is invested in capital assets and \$1,605,000 is restricted which leaves an unrestricted balance of \$6,972,000. The Town's net position increased \$1,713,000 or 6% over last year. The tables below show key financial information in a condensed format for the current year.

Table 1
Town of Berlin, Maryland's Net Position
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 7,533	\$ 7,818	\$ 4,511	\$ 4,671	\$ 12,044	\$ 12,489
Capital assets	4,837	4,631	38,991	35,660	43,828	40,291
Total assets	12,370	12,449	43,502	40,331	55,872	52,780
Long-term liabilities	1,576	2,221	21,248	19,216	22,824	21,437
Other liabilities	242	224	1,612	1,637	1,854	1,861
Total liabilities	1,818	2,445	22,860	20,853	24,678	23,298
Net position						
Invested in capital assets,						
net of related debt	3,408	2,538	19,200	17,646	22,617	20,184
Restricted	207	383	1,398	1,319	1,605	1,702
Unrestricted (deficit)	6,937	7,083	35	513	6,972	7,596
Total net position	\$ 10,552	\$ 10,004	\$ 20,642	\$ 19,478	\$ 31,194	\$ 29,482

Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program services						
Charges for services	\$ 493	\$ 458	\$ 8,132	\$ 7,656	\$ 8,625	\$ 8,114
Operating grants and contributions	92	166			92	166
Capital grants and contributions	157	83	1,757	4,172	1,914	4,255
General revenues						
Property taxes	3,120	3,340			3,120	3,340
Other taxes and fees	391	360			391	360
Unrestricted grants	400	400			400	400
Overhead allocation	593	538	(593)	(538)	-	-
Other	81	19	1	(103)	85	(384)
Total revenues	<u>\$ 5,230</u>	<u>\$ 5,364</u>	<u>\$ 9,300</u>	<u>\$ 10,887</u>	<u>\$ 14,530</u>	<u>\$ 16,254</u>
Expenses						
General government	1,473	1,216			1,473	1,216
Public Safety	1,364	1,890			1,364	1,890
Public Works	1,012	1,072			1,012	1,072
Planning and community development	307	317			307	317
Recreation and parks	97	92			97	92
Interest on long-term debt	98	91			98	91
Electric			5,136	5,155	5,136	5,155
Water			639	631	639	631
Sewer			2,612	2,151	2,612	2,151
Stormwater			49		49	
Total expenses	<u>4,381</u>	<u>4,708</u>	<u>8,436</u>	<u>7,937</u>	<u>12,817</u>	<u>12,645</u>
Excess before transfers	849	656	864	2,950	1,713	3,606
Transfers	(300)	(892)	300	892		
Change in net position	<u>\$ 549</u>	<u>\$ (736)</u>	<u>\$ 1,164</u>	<u>\$ 3,812</u>	<u>\$ 1,713</u>	<u>\$ 3,606</u>

Governmental activities

Net position for the Town's governmental activities increased \$849,000 during the fiscal year (prior to transfers of \$300,000). The primary reasons for this increase mirror those highlighted in the following analysis of the Governmental Funds.

Business-type activities

During the fiscal year, the Town's net position for business-type activities increased \$1,165,000. Because the change in net position for the Enterprise Funds is an aggregate, for purposes of this management discussion and analysis, Electric, Water, Sewer, and Stormwater funds will be addressed individually below.

The Electric Fund had an operating income of \$685,000 and a total increase in net position of \$438,000 compared to net increase of \$54,000 last year.

In August 2009 and continuing through June 30, 2013, the Town retained Booth & Associates to assist in evaluating the needs at the electric department, both operationally and financially. Operation recommendations covered the power plant and distribution system facilities, equipment, vehicles, and staffing. The financial recommendations addressed three major areas: base rates, power cost adjustment, and power use management. In November, 2012, the Maryland Public Services Commission approved the Town's request for an 11.5% decrease in the Town's non-residential electric rates.

Revenues were up 8% from last year primarily from the Town entering into multiple purchase power agreements in June 2011 and February 2012. These new agreements helped to reduce the PCA Rate. It should be noted that revenues in a given fiscal year are not a true representation of kilowatts sold in that same fiscal year because you are always recovering power costs from prior years.

Operating expenses were up from last year by \$157,000 or 3%. Purchased power increased 13%. Purchased power is the wholesale price of electric power that is resold to ratepayers through a Power Cost Adjustment (PCA) factor. Wholesale power is forecast for a twelve month period and then adjusted to the actual number in December of each year known as the Actual Cost Adjustment ("ACA").

The Water Fund had an operating loss of \$24,000 and a total increase in net position of \$32,000 compared to a net increase last year of \$144,000. Revenues decreased \$6,000 over last year with a \$22,000 increase in expenses due mainly to increases in supplies and operating costs, contracted services and insurance.

The Sewer Fund had an operating loss of \$993,000 and a total increase in net position of \$290,000 compared to an increase in net position last year of \$2,859,000. Total revenues increased \$97,000 due to increases in charges for services and hauler fees. Capital grants of \$1,498,000 were received in 2013 compared to \$3,634,000 received in 2012.

Operating expenses increased \$471,000 due to increases in supplies and operating expenses, contract services, and repairs and maintenance related to the wastewater treatment plant upgrade and spray site projects.

During the year ended June 30, 2013, the Town established a new Stormwater utility fund. User fees will be charged beginning July 1, 2013.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2013, the Town's governmental funds reported a combined fund balance of \$7,088,000. This is a \$50,000 decrease in fund balance (prior to transfers out of \$300,000) compared to a \$1,195,000 increase last year. The primary reasons for the decrease include:

Revenues decreased from the prior year by \$252,000 or 5%. Property taxes decreased due to a decrease in the real property tax rate and a decrease in corporate property taxes.

Along with the decrease in revenues, the Town experienced an increase in expenditures of 7%. The most significant changes occurred in the following areas:

- Public safety expenditures decreased due to a decrease in funding of the ambulance department.
- Debt service costs increased due to the payoff of two bonds.
- Capital outlay expenses included \$412,000 for sidewalks and street paving.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council revised the general fund budget to provide funding to the newly created stormwater fund. Budgeted revenues and expenses were increased as follows:

- Contribution to stormwater fund \$ 300,000
- Reduction of contingency expense \$ 300,000

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, the Town had \$43,828,000, net of accumulated depreciation, invested in a broad range of capital assets.

Table 3
Town of Berlin, Maryland's Net Capital Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,783	\$ 1,783	\$ 4,062	\$ 3,881	\$ 5,845	\$ 5,664
Infrastructure	3,801	3,435	48,972	48,759	\$2,773	\$2,194
Building and Improvements	924	883	677	652	1,601	1,535
Equipment	873	863	3,126	2,882	3,999	3,745
Vehicles	1,216	1,215	1,277	1,232	2,523	2,447
Construction in progress	113	20	7,724	3,267	7,837	3,287
Less: accumulated depreciation	(3,903)	(3,568)	(26,847)	(25,013)	(30,750)	(28,581)
Total	\$ 1,817	\$ 1,631	\$ 38,991	\$ 35,660	\$ 43,828	\$ 40,291

This year's major capital asset additions included:

Governmental activities

- Energy efficient windows, doors, and new gutters
- Various computer equipment
- Tactical armor for police department
- Sidewalks and street paving
- Two new vehicles

Business-type activities

- Street light fixtures
- Storage shed and overhead garage doors
- Four pickup trucks, two utility vehicles, Bobcat skid loader, and dump truck
- Various maintenance and computer equipment
- Completion of wastewater treatment plant
- Construction in progress for phase I and II of spray irrigation project

Long-term debt

At the end of the fiscal year, the Town had \$23,415,000 in general obligation bonds payable.

Table 4
Town of Berlin, Maryland's Outstanding Debt
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2013	2012	2013	2012	2013	2012	
General obligation bonds	\$ 1,430	\$ 2,093	\$ 21,985	\$ 19,917	\$ 23,415	\$ 22,010	6%
Total	\$ 1,430	\$ 2,093	\$ 21,985	\$ 19,917	\$ 23,415	\$ 22,010	6%

New debt was issued during the fiscal year for phases I and II of the spray irrigation project and for water and sewer lines on Route 818.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Town is in the process of constructing an additional spray site. Phase I of the project was to construct a force main to connect the old spray site and the new one. Phase I is complete and was financed with grants and loans from the U.S. Department of Agriculture. Phase II is estimated to cost \$5,300,000 and is to construct the new spray site. This phase is being funded with loans and grants from the Maryland Department of the Environment and a Community Development Block Grant. As of June 30, 2013, phase II was substantially complete.

During the fiscal year, the Town established a new stormwater utility department. The department will be funded through a flat fee based upon Equivalent Residential Units (ERU) beginning July 1, 2013. In addition, the general fund will contribute \$300,000 per year. The Town is also pursuing obtaining outside loan and grant funds to pay for planned stormwater projects.

The Town is taking all reasonable measures to monitor and control expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Town of Berlin, Maryland, 10 William Street, Berlin, Maryland 21811.

TOWN OF BERLIN, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 610,155	\$ 1,289,877	\$ 1,900,032
Pooled cash and investments	4,600,283	1,405,378	6,005,661
Taxes receivable	242,142		242,142
Accounts receivable, net	67,127	1,621,777	1,688,904
Internal balances	1,687,822	(1,687,822)	
Due from other governments	116,370	125,005	241,375
Inventories		182,019	182,019
Total current assets	<u>7,323,899</u>	<u>2,936,234</u>	<u>10,260,133</u>
Noncurrent assets			
Restricted cash	207,445	1,398,323	1,605,768
Deferred charges, net of accumulated amortization	1,904	176,746	178,650
Capital assets, net of accumulated depreciation	<u>4,837,027</u>	<u>38,990,831</u>	<u>43,827,858</u>
Total noncurrent assets	<u>5,046,376</u>	<u>40,565,900</u>	<u>45,612,276</u>
Total assets	<u>12,370,275</u>	<u>43,502,134</u>	<u>55,872,409</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	182,766	527,688	710,454
Accrued compensated absences	17,924	21,583	39,507
Accrued interest payable	5,665	133,571	139,236
Customer deposits		98,760	98,760
Current portion of long-term debt	15,136	813,661	828,797
Deferred revenue	<u>20,815</u>	<u>16,605</u>	<u>37,420</u>
Total current liabilities	<u>242,306</u>	<u>1,611,868</u>	<u>1,854,174</u>
Noncurrent liabilities			
Bonds payable	1,414,409	21,171,540	22,585,949
Accrued compensated absences	<u>161,320</u>	<u>76,133</u>	<u>237,453</u>
Total noncurrent liabilities	<u>1,575,729</u>	<u>21,247,673</u>	<u>22,823,402</u>
Total liabilities	<u>1,818,035</u>	<u>22,859,541</u>	<u>24,677,576</u>
NET POSITION			
Invested in capital assets, net of related debt	3,407,482	19,209,869	22,617,351
Restricted	207,445	1,398,323	1,605,768
Unrestricted	<u>6,937,313</u>	<u>34,401</u>	<u>6,971,714</u>
Total net position	<u>\$ 10,552,240</u>	<u>\$ 20,642,593</u>	<u>\$ 31,194,833</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 1,472,703	\$ 324,920	\$	\$ 69,500	\$ (1,078,283)	\$	\$ (1,078,283)
Public safety	1,363,616	8,062	41,565		(1,313,989)		(1,313,989)
Public works	1,041,992	33,546	29,851	50,000	(928,595)		(928,595)
Planning and economic development	307,478	26,354	20,265		(260,859)		(260,859)
Recreation and parks	97,384			37,805	(59,579)		(59,579)
Interest on long-term debt	97,416				(97,416)		(97,416)
Total governmental activities	4,380,589	392,882	91,681	157,305	(3,738,721)		(3,738,721)
Business-type activities							
Electric	5,136,015	5,906,360				770,345	770,345
Water	638,582	694,673		68,275		124,366	124,366
Sewer	2,611,607	1,531,421		1,534,903		454,717	454,717
Stormwater	49,633			154,000		104,367	104,367
Total business-type activities	8,435,837	8,132,454		1,757,178		1,453,795	1,349,428
Total	\$ 12,816,426	\$ 8,525,336	\$ 91,681	\$ 1,914,483	(3,738,721)	1,453,795	(2,389,293)
General revenues							
Taxes							
Property taxes					3,119,584		3,119,584
Public service taxes					45,432		45,432
State income taxes					273,204		273,204
Franchise fees					75,300		75,300
Grants and contributions not restricted to specific programs					400,000		400,000
Unrestricted investment earnings					79,972	2,616	82,588
Overhead allocation					592,970	(592,970)	
Special item - Gain (loss) on disposal of assets					988	1,163	2,151
Transfers					(300,000)	300,000	
Total general revenues and special items					4,287,450	(289,191)	3,998,259
Change in net position					548,729	1,164,604	1,713,333
Net position at beginning of year, as restated					10,003,511	19,477,989	29,481,500
Net position at end of year					\$ 10,552,240	\$ 20,642,593	\$ 31,194,833

The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2013

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 590,779	\$ 19,376	\$ 610,155
Pooled cash and investments	4,600,283		4,600,283
Taxes receivable	242,151		242,151
Accounts and notes receivable, net	67,127		67,127
Due from other governments	115,581	789	116,370
Due from other funds	1,687,823		1,687,823
Restricted cash	207,445		207,445
Total assets	<u>\$ 7,511,189</u>	<u>\$ 20,165</u>	<u>\$ 7,531,354</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 178,828	\$	\$ 178,828
Accrued expenses	21,872		21,872
Deferred revenue	222,354	20,630	242,984
Total liabilities	<u>423,054</u>	<u>20,630</u>	<u>443,684</u>
Fund balances			
Restricted	793		793
Committed	206,652		206,652
Assigned	363,217		363,217
Unassigned (deficit)	6,517,473	(465)	6,517,008
Total fund balance (deficit)	<u>7,088,135</u>	<u>(465)</u>	<u>7,087,670</u>
Total liabilities and fund balances	<u>\$ 7,511,189</u>	<u>\$ 20,165</u>	<u>\$ 7,531,354</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

JUNE 30, 2013

Total fund balances, governmental funds	\$ 7,087,670
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Amounts reported for governmental activities in the statement of net position
are different because:

Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	4,837,027
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Governmental funds report bond issuance costs as an expenditure. In contrast, the Statement of Activities treats such costs as an asset and amortizes them over the term of the debt.	1,904
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Certain revenues that do not provide current financial resources are reported as deferred income in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Position.	222,169
---	---------

Some liabilities including notes payable, and accrued compensated absences are not due and payable in the current period and therefore are not reported in the fund financial statements, but are included in the governmental activities in the Statement of Net Position.	<u>(1,596,530)</u>
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Net position of governmental activities	<u>\$ 10,552,240</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Taxes	\$ 3,390,839	\$	\$ 3,390,839
Licenses and permits	173,906		173,906
Intergovernmental revenues	863,490	8,970	872,460
Service charges	655,583		655,583
Impact fees	4,000		4,000
Earnings on investments	79,972		79,972
Miscellaneous	21,798		21,798
Total revenues	<u>5,189,588</u>	<u>8,970</u>	<u>5,198,558</u>
Expenditures			
Current			
General government	1,392,519		1,392,519
Public safety	1,317,453	8,246	1,325,699
Public works	828,591		828,591
Planning and economic development	306,023		306,023
Recreation and parks	51,579		51,579
Debt service	761,137		761,137
Capital outlay	583,004		583,004
Total expenditures	<u>5,240,306</u>	<u>8,246</u>	<u>5,248,552</u>
Excess of revenues over (under) expenditures	(50,718)	724	(49,994)
Other financing sources (uses)			
Transfers out	<u>(300,000)</u>		<u>(300,000)</u>
Net change in fund balance	(350,718)	724	(349,994)
Fund balance (deficit), beginning of year, as restated	<u>7,438,853</u>	<u>(1,189)</u>	<u>7,437,664</u>
Fund balance (deficit), end of year	<u>\$ 7,088,135</u>	<u>\$ (465)</u>	<u>\$ 7,087,670</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

Net change in fund balances, governmental funds	\$ (349,994)
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$583,004) exceeded depreciation (\$372,458) in the current period.	210,546
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In the Statement of Activities, the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the book value of the assets sold.	(4,357)
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Some expenses reported in the statements of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Change in accrued interest payable	476
Change in bond issuance costs	(395)
Change in long-term compensated absences	(18,173)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned:

Change in deferred revenue	47,381
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Governmental funds report repayment of debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Change in net position of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black;"> <div style="display: inline-block; text-align: right;">663,245</div> <div style="display: inline-block; text-align: right;">\$ 548,729</div> </div>
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The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

JUNE 30, 2013

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
ASSETS					
Current assets					
Cash	\$	\$	\$ 1,289,877	\$	\$ 1,289,877
Pooled cash and investments	1,302,449			102,929	1,405,378
Accounts receivable, net of allowance	664,545	208,095	733,957	15,180	1,621,777
Due from other governments				125,005	125,005
Inventory	172,883	7,749	1,387		182,019
Total current assets	<u>2,139,877</u>	<u>215,844</u>	<u>2,025,221</u>	<u>243,114</u>	<u>4,624,056</u>
Noncurrent assets					
Restricted cash		1,066,678	331,645		1,398,323
Deferred charges, net of accumulated amortization	139,245	4,705	32,796		176,746
Capital assets, net of accumulated depreciation	6,167,172	2,127,105	30,516,022	180,532	38,990,831
Total noncurrent assets	<u>6,306,417</u>	<u>3,198,488</u>	<u>30,880,463</u>	<u>180,532</u>	<u>40,565,900</u>
Total assets	<u>8,446,294</u>	<u>3,414,332</u>	<u>32,905,684</u>	<u>423,646</u>	<u>45,189,956</u>
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	253,130	28,748	243,136	2,674	527,688
Accrued compensated absences	10,875	6,310	4,398		21,583
Accrued interest payable	28,886	4,663	100,022		133,571
Customer deposits	98,760				98,760
Current portion of long-term debt	478,380	10,913	324,368		813,661
Due to other funds		194,298	1,493,524		1,687,822
Deferred revenue				16,605	16,605
Total current liabilities	<u>870,031</u>	<u>244,932</u>	<u>2,165,448</u>	<u>19,279</u>	<u>3,299,690</u>
Noncurrent liabilities					
Bonds payable	6,128,899	580,035	14,462,606		21,171,540
Accrued compensated absences	30,188	18,930	27,015		76,133
Total noncurrent liabilities	<u>6,159,087</u>	<u>598,965</u>	<u>14,489,621</u>		<u>21,247,673</u>
Total liabilities	<u>7,029,118</u>	<u>843,897</u>	<u>16,655,069</u>	<u>19,279</u>	<u>24,547,363</u>
NET POSITION					
Invested in capital assets, net of related debt	1,764,132	1,536,157	15,729,048	180,532	19,209,869
Restricted for capital projects		1,066,678	331,645		1,398,323
Unrestricted (deficit)	(346,956)	(32,400)	189,922	223,835	34,401
Total net position	<u>\$ 1,417,176</u>	<u>\$ 2,570,435</u>	<u>\$ 16,250,615</u>	<u>\$ 404,367</u>	<u>\$ 20,642,593</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2013

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
Revenues					
Service charges	\$ 5,823,279	\$ 615,973	\$ 1,422,823	\$	\$ 7,862,075
Sales and services	40,974	9,804	3,779		54,557
Hauler fees			81,010		81,010
Interest on delinquent accounts	40,097	10,299	20,935		71,331
Miscellaneous	2,010	58,597	2,874		63,481
Total revenues	<u>5,906,360</u>	<u>694,673</u>	<u>1,531,421</u>		<u>8,132,454</u>
Expenses					
Purchased power	3,133,262				3,133,262
Personnel expenses	610,204	310,531	580,428		1,501,163
Supplies and operating	373,216	145,703	401,443	1,069	921,431
Professional services	193,817		2,803	18,527	215,147
Contracted services	51,717	24,162	35,872	30,037	141,788
Insurance	15,316	5,910	13,550		34,776
Repairs and maintenance	25,841	15,865	39,777		81,483
Depreciation and amortization	481,579	123,004	1,287,145		1,891,728
General overhead	336,240	93,560	163,170		592,970
Total expenses	<u>5,221,192</u>	<u>718,735</u>	<u>2,524,188</u>	<u>49,633</u>	<u>8,513,748</u>
Operating income (loss)	<u>685,168</u>	<u>(24,062)</u>	<u>(992,767)</u>	<u>(49,633)</u>	<u>(381,294)</u>
Nonoperating revenues (expenses)					
Capital grants		55,000	1,498,120	154,000	1,707,120
Interest income		1,039	1,577		2,616
Interest expense	(251,063)	(13,407)	(250,589)		(515,059)
Gain (loss) on disposal of assets	3,805		(2,642)		1,163
Net nonoperating revenues (expenses)	<u>(247,258)</u>	<u>42,632</u>	<u>1,246,466</u>	<u>154,000</u>	<u>1,195,840</u>
Income before contributions and transfers	437,910	18,570	253,699	104,367	814,546
Transfers in				300,000	300,000
Capital contributions - special connection fees		13,275	36,783		50,058
Change in net position	437,910	31,845	290,482	404,367	1,164,604
Net position at beginning of year	<u>979,266</u>	<u>2,538,590</u>	<u>15,960,133</u>		<u>19,477,989</u>
Net position at end of year	<u>\$ 1,417,176</u>	<u>\$ 2,570,435</u>	<u>\$ 16,250,615</u>	<u>\$ 404,367</u>	<u>\$ 20,642,593</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2013

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
Cash flows from operating activities					
Receipts from customers	\$ 5,892,345	\$ 649,993	\$ 1,341,802	\$ 1,425	\$ 7,885,565
Other receipts	2,010	58,597	2,874		63,481
Payments to suppliers	(3,828,364)	(175,059)	(297,883)	(46,959)	(4,348,265)
Payments to employees	(598,296)	(307,867)	(568,695)		(1,474,858)
Payments for interfund services	(336,240)	(93,560)	(163,170)		(592,970)
Net cash provided (used) by operating activities	1,131,455	132,104	314,928	(45,534)	1,532,953
Cash flows from noncapital financing activities					
Interfund borrowings (repayments)		194,298	1,274,073		1,468,371
Interfund transfers				300,000	300,000
Net cash provided by noncapital financing activities		194,298	1,274,073	300,000	1,768,371
Cash flows from investing activities					
Interest income		1,039	1,577		2,616
Net cash provided by investing activities		1,039	1,577		2,616
Cash flows from capital and related financing activities					
Purchases of capital assets	(451,490)	(697,336)	(4,109,975)	(180,532)	(5,439,333)
Proceeds from the sale of capital assets	3,805				3,805
Proceeds from capital grants			1,982,871	28,995	2,011,866
Principal paid on long-term debt	(317,849)	336,682	2,049,046		2,067,879
Interest paid on long-term debt	(252,740)	(10,971)	(232,871)		(496,582)
Capital contributions - special connection fees		13,275	36,783		50,058
Net cash used by capital and related financing activities	(1,018,274)	(358,350)	(274,146)	(151,537)	(1,802,307)
Net increase (decrease) in cash	113,181	(30,909)	1,316,432	102,929	1,501,633
Cash at beginning of year	1,189,268	1,097,587	305,090		2,591,945
Cash at end of year	\$ 1,302,449	\$ 1,066,678	\$ 1,621,522	\$ 102,929	\$ 4,093,578
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 685,168	\$ (24,062)	\$ (992,767)	\$ (49,633)	\$ (381,294)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation and amortization	482,303	123,003	1,284,857		1,890,163
Change in deferred revenue				16,605	
(Increase) decrease in assets					
Accounts receivable	(8,183)	13,917	(186,744)	(15,180)	(196,190)
Inventory	(42,582)	(2,059)	49		(44,592)
Increase (decrease) in liabilities					
Accounts payable and accrued expenses	18,571	21,305	209,533	2,674	252,083
Deposits	(3,822)				(3,822)
Net cash provided by operating activities	\$ 1,131,455	\$ 132,104	\$ 314,928	\$ (45,534)	\$ 1,516,348

The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Berlin, Maryland, (the Town), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The basic criteria for including component units in the Town's financial statements are the exercise of oversight responsibility over such units by the Town's elected officials and the scope of public services as it pertains to the activities benefiting the residents within the geographic boundaries of the Town. Oversight responsibility embraces such factors as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Based on the above criteria as set forth by the GASB, the Town of Berlin, Maryland has no component units.

Basis of Presentation

Government-wide financial statements - The statement of net position and the statement of activities display information about the Town. These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Fund financial statements - The fund financial statements provide information about the Town's funds. Separate statements for each fund category -- governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Any remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grants and investment earnings, result from nonexchange transactions.

The Town reports the following major governmental fund: general fund. This is the primary operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

The Town reports the following major enterprise funds: electric, water, sewer, and stormwater. These funds account for the operation and management of the electric, water, sewer, and stormwater departments.

The Town reports the following non-major governmental fund: special revenue fund. This fund accounts for state and federal grants with specific compliance restrictions.

Measurement Focus, Basis of Accounting

The government-wide and proprietary fund statements are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all the eligibility requirements have been satisfied.

The governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes, charges for services, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Data

The Town's budgetary year begins July 1 of each year. By Town Ordinance, the Council must approve a budget for the succeeding year by June 30 after holding at least two public hearings. Appropriations lapse at year-end unless obligated or encumbered. Expenditures in excess of amounts appropriated for or transferred to a general classification of expenditures in the budget are prohibited by the Town's charter. Budget amendments can be made during the year, but must be approved by the Mayor and Council. Appropriations from prior year fund balance are recorded as other financing sources for budgetary purposes.

The general fund budget is adopted on a basis consistent with generally accepted accounting principles for governmental funds. No budget is adopted or required for the special revenue fund.

Cash Equivalents

The Town treats certificates of deposit with original maturities of 90 days or less and investments in repurchase agreements with short-term maturities as cash equivalents for purposes of preparing the cash flow statement.

Restricted Cash

Restricted cash in the general fund consists of impact fees set aside for future capital projects and slots revenue restricted by the State of Maryland. Restricted cash in the enterprise funds consists of special connection charges restricted for water and sewer capital and related financing activities and EDU escrow deposits.

Allowance for Uncollectible Accounts

Provision is made for estimated uncollectible electric, water, sewer, and stormwater charges and miscellaneous accounts receivable based upon the Town's determination of individual accounts not likely to be collected. At June 30, 2013, the allowance in the General Fund was \$3,912 and the Enterprise Fund was \$80,288.

Inventories

Inventories of supplies are stated at cost at year-end as determined by the first-in, first-out method. Inventories are charged to expense when consumed, rather than when purchased or donated.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue

Deferred revenue in the general fund arises when a revenue does not meet both the "measurable" and the "available" criteria for recognition in the current period. For the governmental funds statements, property taxes not collected within sixty days following the end of the year are considered not available to pay liabilities that are owed at the balance sheet date and therefore are reported as deferred revenue. In addition, deferred revenue includes income received but not earned at year end.

Property Taxes

Real and personal property taxes are calculated based on the assessable basis of the property as of the January 1 preceding the fiscal year which begins July 1. The taxes are levied July 1 of each year and are due October 1 with penalties charged on payments not received by October 1.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets, such as streets, curbs, gutters, storm drains, traffic lighting systems and similar assets, acquired after June 30, 2000 are capitalized in the government-wide financial statements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20 - 50 years
Buildings and improvements	20 - 40 years
Machinery and equipment	5 - 10 years
Transportation equipment	5 - 15 years

Deferred Charges

Deferred charges represent bond issuance costs which have been capitalized and amortized over the terms of the respective bonds, using the straight-line method.

Accrued Compensated Absences

The Town accrues a liability in the government-wide and proprietary fund statements for certain compensated absences (vacation and compensatory time) that have been earned but not yet paid. Sick pay, which is earned but not payable at separation, is not included.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Contributions - Enterprise Funds

Capital contributions in the water and sewer funds consist of special connection fees that were assessed for payment of debt service costs and capital improvements to the water and sewer plants. Interest earned that is attributable to the special connections fees is reported in the water and sewer funds.

Government-Wide and Proprietary Fund Net Position

Government-wide and proprietary fund net position are divided into three components as follows:

Invested in capital assets, net of related debt - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted - consists of assets that are restricted by enabling legislation. In the governmental activities, this amount represents impact fees that are restricted for use on future capital projects and slots revenue that is restricted by the State of Maryland. In the business-type activities, this amount represents special connection charges restricted for water and sewer capital and related financing activities and EDU escrow deposits.

Unrestricted - all other not reported in the above categories.

When an expense is incurred that can be paid using either restricted or unrestricted net position, the Town's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable fund balance - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

Restricted fund balance - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.

Committed fund balance - amounts that can be spent only for specific purposes determined by a formal action of the Mayor and Council.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Fund Balances (continued)

Assigned fund balance - amounts the Mayor and Council intend to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance - amounts that are available for any purpose; these amounts can be reported only in the Town's General Fund.

In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications (committed and then assigned fund balances) before using unassigned fund balances.

Change in Accounting Principles

During 2013, the Town implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements*. There was no material effect on the financial statements due to this change.

In addition, the Town adopted GASB Statement No. 63, *Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Adoption of this statement changed the terms and classification of items in the statement of financial position in the government-wide activities and enterprise funds.

DEPOSITS AND INVESTMENTS

The Town maintains a cash and investment pool that is available for use by all funds. In addition, cash is separately held by several of the Town's funds. The Town's deposits are held in checking, money market accounts, and certificates of deposits.

The Town follows the State of Maryland laws related to types of deposits and investments, selection of depositories, and collateral requirements. The Annotated Code of Maryland requires that deposits with financial institutions be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution.

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. As of June 30, 2013, \$3,622,033 of the Town's deposits were exposed to custodial credit risk. These amounts were not covered by the Federal Deposit Insurance Corporation (FDIC) but were collateralized with securities held by the pledging financial institution's trust department, not in the Town's name.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases and Transfers In	Decreases and Transfers Out	Ending Balance
Governmental activities:				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,782,474	\$	\$	\$ 1,782,474
Construction in progress	19,886	92,833		112,719
Total capital assets not being depreciated	1,802,360	92,833		1,895,193
<i>Capital assets being depreciated</i>				
Infrastructure	3,435,296	365,688		3,800,984
Buildings and improvements	883,383	40,928		924,311
Equipment	863,233	17,657	7,350	873,540
Vehicles	1,214,866	65,898	34,962	1,245,802
Total capital assets being depreciated	6,396,778	490,171	42,312	6,844,637
Less accumulated depreciation for:				
Infrastructure	1,589,379	186,012		1,775,391
Buildings and improvements	555,741	27,926		583,667
Equipment	549,012	77,531	7,024	619,519
Vehicles	874,168	80,989	30,931	924,226
Total accumulated depreciation	3,568,300	372,458	37,955	3,902,803
Total capital assets being depreciated, net	2,828,478	117,713	4,357	2,941,834
Governmental activity capital assets, net	\$ 4,630,838	\$ 210,546	\$ 4,357	\$ 4,837,027

Business-type Activities

Electric:

<i>Capital assets not being depreciated</i>				
Land	\$ 304,510	\$	\$	\$ 304,510
Total capital assets not being depreciated	304,510			304,510
<i>Capital assets being depreciated</i>				
Infrastructure	14,570,450	201,947		14,772,397
Buildings and improvements	617,463			617,463
Equipment	2,022,638	168,441	2,916	2,188,167
Vehicles	446,716	81,102	5,125	522,693
Total capital assets being depreciated	17,657,267	451,490	8,041	18,100,716
Less accumulated depreciation for:				
Infrastructure	9,674,505	381,525		10,056,030
Buildings and improvements	389,470	17,377		406,847
Equipment	1,293,713	66,068	2,916	1,356,865
Vehicles	410,310	13,127	5,125	418,312
Total accumulated depreciation	11,767,998	478,097	8,041	12,238,054
Total capital assets being depreciated, net	5,889,269	(26,607)		5,862,662
Electric activities, capital assets, net	6,193,779	(26,607)		6,167,172

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

CAPITAL ASSETS (continued)

	Beginning Balance	Increases and Transfers In	Decreases and Transfers Out	Ending Balance
<u>Sewer:</u>				
<i>Capital assets not being depreciated</i>				
Land	3,495,233			3,495,233
Construction in progress	3,206,973	3,875,545	88,196	6,994,322
Total capital assets not being depreciated	6,702,206	3,875,545	88,196	10,489,555
<i>Capital assets being depreciated</i>				
Infrastructure	30,205,251	11,106		30,216,357
Buildings and improvements	20,737			20,737
Equipment	618,361	91,043	7,659	701,745
Vehicles	698,826			698,826
Total capital assets being depreciated	31,543,175	102,149	7,659	31,637,665
Less accumulated depreciation for:				
Infrastructure	9,755,613	1,124,864		10,880,477
Buildings and improvements	20,737			20,737
Equipment	307,758	90,524	5,017	393,265
Vehicles	247,249	69,470		316,719
Total accumulated depreciation	10,331,357	1,284,858	5,017	11,611,198
Total capital assets being depreciated, net	21,211,818	(1,182,709)	2,642	20,026,467
Sewer, capital assets, net	27,914,024	2,692,836	90,838	30,516,022
 <u>Water:</u>				
<i>Capital assets not being depreciated</i>				
Land	82,039			82,039
Construction in progress	60,364	669,912		730,276
Total capital assets not being depreciated	142,403	669,912		812,315
<i>Capital assets being depreciated</i>				
Infrastructure	3,983,014			3,983,014
Buildings and improvements	14,205	24,578	235	38,548
Equipment	241,254	2,847	8,445	235,656
Vehicles	85,663		30,125	55,538
Total capital assets being depreciated	4,324,136	27,425	38,805	4,312,756
Less accumulated depreciation for:				
Infrastructure	2,622,224	112,688	235	2,734,677
Buildings and improvements	10,209	276		10,485
Equipment	196,223	9,713	8,445	197,491
Vehicles	85,438		30,125	55,313
Total accumulated depreciation	2,914,094	122,677	38,805	2,997,966
Total capital assets being depreciated, net	1,410,042	(95,252)		1,314,790
Water, capital assets, net	1,552,445	574,660		2,127,105

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

CAPITAL ASSETS (continued)

	Beginning Balance	Increases and Transfers In	Decreases and Transfers Out	Ending Balance
<u>Stormwater:</u>				
<i>Capital asset not being depreciated</i>				
Land improvements		180,532		180,532
Stormwater, capital asset, net		180,532		180,532
Business-type activities				
Capital assets, net	\$ 35,660,248	\$ 3,421,421	\$ 90,838	\$ 38,990,831

Included in construction in progress in the sewer fund is \$6,635,860 for Phases I and II of the spray irrigation project and \$358,462 for the North Main Street sewer extension project.

Phase I of the spray irrigation project is estimated to cost \$3,500,000. This project is being funded by a U.S. Department of Agriculture loan (\$2,462,000) and grant (\$1,037,350) and a \$650 contribution from the Town. As of June 30, 2013, total construction costs of \$1,868,940 have been incurred and are included in construction in progress in the sewer fund. In addition, \$1,700,000 of the funding was used for the purchase of land for the spray site.

Phase II of the spray irrigation project is estimated to cost \$5,600,000 and is being funded by a loan (\$3,500,000) and grant (\$1,500,000) from the Maryland Department of the Environment and a CDBG grant of \$600,000. As of June 30, 2013, costs of \$4,766,920 have been incurred and are included in construction in progress in the sewer fund.

Depreciation expense for governmental activities was charged to functions as follows:

General government	\$ 53,093
Public safety	28,211
Public works	192,843
Planning and community development	52,506
Recreation and parks	45,805
	<u>\$ 372,458</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

FUND BALANCES

Restricted fund balances are state slots revenue that is restricted by the State of Maryland.

Committed fund balances are impact fees that are restricted for use on future capital projects.

Assigned fund balances are monies that the Mayor and Council has designed for the payment of employee insurance premiums.

INTERNAL BALANCES AND ACTIVITY

Balances due to/from other funds at June 30, 2013 consist of the following:

	Balance June 30, 2012	Increase (Decrease)	Balance June 30, 2013
Due to the general fund from the sewer fund	\$ 219,451	\$ 1,274,073	\$ 1,493,524
Due to the general fund from the water fund		194,298	194,298
	<u>\$ 219,451</u>	<u>\$ 1,468,371</u>	<u>\$ 1,687,822</u>

The balances due to the general fund are not expected to be repaid within one year.

In the current year, the general fund transferred \$300,000 to the stormwater fund. This transfer is treated as other financing sources or uses within the respective funds.

LONG-TERM DEBT

Changes in long-term obligations for the year June 30, 2013 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
General obligation bonds	<u>\$ 2,092,790</u>	<u>\$</u>	<u>\$ 663,245</u>	<u>\$ 1,429,545</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

LONG-TERM DEBT (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Electric				
General obligation bonds	\$ 6,925,128	\$ 151,712	\$ 469,562	\$ 6,607,278
Water				
General obligation bonds	254,266	347,127	10,445	590,948
Sewer				
General obligation bonds	<u>12,737,929</u>	<u>2,305,768</u>	<u>256,723</u>	<u>14,786,974</u>
	<u>\$ 19,917,323</u>	<u>\$ 2,804,607</u>	<u>\$ 736,730</u>	<u>\$ 21,985,200</u>

Governmental Activities

Notes payable and general obligation bonds consist of the following:

	<u>Principal Balance Outstanding at June 30, 2013</u>
Public improvement bonds of 2002 payable to the U.S. Department of Agriculture. The original obligations are dated September 26, 2002 in the amount of \$163,655. Debt is amortized over 40 years at an interest rate of 4.75%. Interest and principal is due quarterly, with payments ranging from \$362 to \$1,206 through September 26, 2042.	\$ 558,085
Bond anticipation note payable to the bank for the street improvement project, not to exceed \$1,700,000. The original obligation is dated November 1, 2009. Interest at 4.07% is due quarterly. The maturity date is November 1, 2024.	840,000
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1998. The original obligations are dated May 17, 2012 in the amount of \$37,484. Debt is being amortized over 6 years. Interest rates range from 1.41% to 1.94%. Interest is due semi-annually with principal payments due annually and maturing May 1, 2018.	<div style="text-align: right;">31,460</div> <div style="text-align: right;"><u>\$ 1,429,545</u></div>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

LONG-TERM DEBT (continued)

Business-type Activities
Electric Fund

	Principal Balance Outstanding at June 30, 2013
General obligation bonds of 1999 payable to the Maryland Department of Housing and Community Development. The original obligations are dated March 24, 1999 in the amount of \$2,055,000. Debt was being amortized over 15 to 30 years at interest rates ranging from 4.13% to 5.00%. The debt was refinanced in part with 2012 infrastructure bonds. Interest and principal is due semi-annually maturing May 1, 2014.	\$ 19,600
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1988. The original obligations are dated May 17, 2012 in the amount of \$899,618. Debt is amortized over 6 years. Interest rates range from 1.41% to 1.94%. Interest is due semi-annually with principal payments due annually, ranging from \$1,484 to \$157,804 through May 1, 2018.	755,040
2004 bonds payable to the Maryland Department of Housing and Community Development dated April 22, 2004, for \$3,000,000. Debt is amortized over 30 years at interest rates ranging from 2.00% to 4.875%. Interest and principal is due semi-annually, with total annual payments ranging from \$186,214 to \$200,334 through May 1, 2034. As of June 30, 2013, \$231,861 of the \$3,000,000 has not been drawn. The undrawn portion currently earns interest at 2.00%, which is applied against the debt service costs.	2,204,238
Infrastructure financing bonds of 2007 payable to the Maryland Department of Community Development. This obligation was used to refinance general obligation bonds for 1995. The original obligation is dated November 14, 2007 in the amount of \$944,200. Debt is amortized from 8 to 20 years at an interest rate of 4.125%. Interest and principal is due semi-annually with total annual payments ranging from \$47,230 to \$97,980. The maturity dates range from May 1, 2015 to May 1, 2027.	539,000

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

LONG-TERM DEBT (continued)

Business-type Activities (continued)
Electric Fund (continued)

Principal Balance
Outstanding at
June 30, 2013

Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1999. The original obligations are dated May 17, 2012 in the amount of \$1,431,232. Debt is amortized over 17 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$2,098 to \$106,500 through May 1, 2029.

1,362,200

Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1998. The original obligations are dated May 17, 2012 in the amount of \$1,820,652. Debt is amortized over 16 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$2,778 to \$141,000 through May 1, 2028.

1,726,300

Total Electric Fund

6,607,278

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

LONG-TERM DEBT (continued)

Business-type Activities (continued)
Water Fund

	Principal Balance Outstanding at June 30, 2013
General obligation bond of 1980 to the U.S. Department of Agriculture. The original obligation is dated August 3, 1981 in the amount of \$154,000. Debt is amortized over 40 years at an average interest rate of 5.00%. Interest and principal is due semi-annually with total annual payments of \$4,546. The maturity date is August 3, 2021.	61,621
General obligation bond of 2000 to the U.S. Department of Agriculture. The original obligation is dated September 7, 2000, in the amount of \$150,000. Debt is amortized over 40 years at an average interest rate of 5.13%. Interest and principal is due quarterly, with total annual payments of \$8,844. The maturity date is September 7, 2040.	129,343
Infrastructure financing bonds of 2007 payable to the Maryland Department of Housing and Community Development. This obligations was used to refinance general obligation bonds of 1997. The original obligation is dated November 14, 2007 in the amount of \$68,853. Debt is amortized over 20 years at interest rates ranging from 3.50% to 4.25%. Interest and principal is due semi-annually with total annual payments ranging from \$90,970 to \$93,787. The maturity date is May 1, 2027.	47,557
Loan payable to the Bank of Ocean City. This loan is to fund the water line expansion project on Route 818. The note is dated April 10, 2012 for \$750,000. As of June 30, 2013, \$352,427 has been drawn. Interest payments are due quarterly at 3.3% and annual principal payments begin December 30, 2015. This note matures on December 30, 2017.	352,427
Total Water Fund	590,948

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

LONG-TERM DEBT (continued)

Business-type Activities (continued)
Sewer Fund

Principal Balance
Outstanding at
June 30, 2013

General obligation bonds of 1996 payable to the U.S. Department of Agriculture. The original obligation is dated August 19, 1996 in the amount of \$2,350,800. Debt is amortized over 40 years at an interest rate of 4.50%. Interest and principal is due quarterly with total payments of \$31,747. The maturity date is August 19, 2036.

1,824,212

Infrastructure financing bonds of 2007 payable to the Maryland Department of Housing and Community Development. The obligation was used to refinance general obligation bonds of 1997. The original obligation was dated November 14, 2007 in the amount of \$1,185,347. Debt is amortized over 20 years at interest rates ranging from 3.50% to 4.25%. Interest and principal is due semi-annually with total annual payments ranging from \$90,970 to \$93,787. The maturity date is May 1, 2027.

925,244

Real property acquisition bond payable to an individual. This obligation is being used to finance the purchase of real property for use in the spray irrigation project. The original obligation is dated December 15, 2010 in the amount of \$500,000. Debt is amortized over 25 years at an interest rate of 8.422%. Interest and principal is due monthly with payments in the amount of \$4,045. The maturity date is January 15, 2036.

482,177

Bond payable to the U.S. Department of Agriculture. This obligation was used to fund the lagoon liner and wastewater treatment plan projects. The original obligation is dated November 16, 2010 in the amount of \$5,988,000. Interest and principal is due in semi-annual payments of \$113,952 at an interest rate of 2.25%. The maturity date is November 2050.

5,749,761

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

LONG-TERM DEBT (continued)

Business-type Activities (continued)
Sewer Fund (continued)

Principal Balance
Outstanding at
June 30, 2013

Loan payable to the U.S. Department of Agriculture to fund construction of Phase I of the spray irrigation project. The original obligation is dated August 24, 2011 in the amount of \$2,462,000. Debt is amortized over 40 years at an interest rate of 2.5%. Interest payments are due semi-annually with principal payments being due semi-annually beginning February 2013. Payments range from \$30,775 to \$50,373, maturing August 2050.

2,462,000

Loan payable to Maryland Department of the Environment. This loan is being used to fund construction of Phase II of the spray irrigation project. Total amount available to draw is \$3,207,000. Interest payments at .80% are due in semi-annual payments. Principal payments begin annually February 2015. The maturity date is February 2033.

2,463,754

Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1991. The original obligations are dated May 17, 2012 in the amount of \$587,420. Debt is amortized over 16 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$980 to \$71,000 through May 1, 2021.

527,400

Loan payable to the Bank of Ocean City. This loan is to fund the sewer line expansion project on Route 818. The note is dated April 10, 2012 for \$750,000. As of June 30, 2013, \$352,426 has been drawn. Interest payments are due quarterly at 3.3% and annual principal payments begin December 30, 2015. This note matures on December 30, 2017.

352,426

Total Sewer Fund

14,786,974

Total long-term debt - Business-type Activities

\$ 21,985,200

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

LONG-TERM DEBT (continued)

Debt Service Requirements

Principal and interest requirements to amortize the note and the general obligation and public improvements bonds as of June 30, 2013 are as follows:

Governmental Activities			
Year Ending	Principal	Interest	Totals
2014	\$ 15,136	\$ 63,989	\$ 79,125
2015	15,732	63,366	79,098
2016	16,282	62,817	79,099
2017	16,878	62,236	79,114
2018	17,614	61,617	79,231
2019 - 2023	63,450	298,939	362,389
2024 - 2028	920,468	189,424	1,109,892
2029 - 2033	101,898	75,402	177,300
2034 - 2038	129,033	48,267	177,300
2039 - 2043	133,054	14,345	147,399
	<u>\$ 1,429,545</u>	<u>\$ 940,402</u>	<u>\$ 2,369,947</u>

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of June 30, 2013 are as follows:

Business-Type Activities			
Year Ending	Principal	Interest	Totals
2014	\$ 813,661	\$ 653,763	\$ 1,467,424
2015	949,715	627,654	1,577,369
2016	1,418,757	611,022	2,029,779
2017	1,143,909	573,737	1,717,646
2018	962,916	544,814	1,507,730
2019 - 2023	4,201,488	2,359,099	6,560,587
2024 - 2028	4,358,767	1,702,694	6,061,461
2029 - 2033	2,932,567	1,000,296	3,932,863
2034 - 2038	1,642,347	677,315	2,319,662
2039 - 2043	1,315,858	347,291	1,663,149
2044 - 2048	1,456,708	186,542	1,643,250
2049 - 2051	788,507	27,617	816,124
	<u>\$ 21,985,200</u>	<u>\$ 9,311,844</u>	<u>\$ 31,297,044</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

INTEREST COST - ENTERPRISE FUND

Where applicable, the Town follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. During the year ended June 30, 2013, total interest incurred and paid in the Enterprise Fund was \$663,700. Of this amount, \$148,641 was included in construction in progress and \$515,059 was charged to operations.

INTERNAL CHARGES AND SERVICES

The Town provides administrative services to the proprietary funds for certain services paid in the general fund. Also, a payment in lieu of taxes of \$157,000 is charged to the Electric Fund. The total services billed for the year ended June 30, 2013 were as follows:

<u>Service Type</u>	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Administrative services	<u>\$ 336,240</u>	<u>\$ 93,560</u>	<u>\$ 163,170</u>	<u>\$ 592,970</u>

LEASE AGREEMENTS

At the end of fiscal year 2003, the Town entered into a 25-year lease agreement with AT&T Wireless PCS, LLC, for the use of the Town's water tower for wireless antennas and transmission lines. Monthly payments are due in advance by the 5th of the month. In 2011, additional antennas were added, increasing the annual payment to \$42,000. Total lease payments received for the year ended June 30, 2013 were \$42,000.

Future lease payment terms to be received are:

<u>Year Ending June 30,</u>	<u>Total Payment</u>
2014	\$ 42,000
2015	42,000
2016	42,000
2017	42,000
2018	42,000
All subsequent years	<u>462,000</u>
Total minimum lease payments to be received	<u>\$ 672,000</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

RETIREMENT AND PENSION PLANS

State Retirement and Pension Systems of Maryland

Plan Description

Certain employees of the Town are covered by the Pension System for Employees of the State of Maryland or the Employees' Retirement System of the State of Maryland. These systems are part of the Maryland State Retirement and Pension System (the State System), and are cost-sharing multiple-employer public employee retirement systems. The State System provides pension, death and disability benefits to plan members and beneficiaries. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the State System is vested in a 12-member Board of Trustees. The State System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplementary information for the State System. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 410-625-5555. The Town contributes to the State Retirement and Pension Systems of Maryland ("Systems"), a multiple-employer public employee retirement system that acts as a common investment and cost-sharing agent for State employees, teachers, judges, legislators and employees of participating municipalities within the State of Maryland.

Funding Policy

The State Personnel and Pensions Article requires active members to contribute to the State System at the rate of 4%, 5% or 7% of their covered salary depending upon the retirement option selected. The Town is required to contribute at an actuarially determined rate. The three year contribution information for the Town is as follows:

Fiscal Year Ended	As a Whole Employer Annual Pension Costs	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
June 30, 2011	\$ 349,938	100%	-0-
June 30, 2012	\$ 352,101	100%	-0-
June 30, 2013	\$ 324,524	100%	-0-

RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Town maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this coverage in any of the past three fiscal years.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

DEFERRED COMPENSATION PLAN

The Town offers certain employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The deferred amounts are invested in various annuity contracts. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the deferred compensation plan participants. The Town has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. In accordance with GASB Statement No. 32, the plan's assets are not reported on the statement of net assets of the Town.

COMMITMENTS AND CONTINGENCIES

The Town is the recipient of various federal and state grants. The Town may be under obligation to repay these grant funds if, upon final review by the respective granting agencies, the funds expended did not meet the established program objectives. The Town is not aware of any repayment requests.

PRIOR PERIOD ADJUSTMENT

The General fund balance and the governmental activities net position at the beginning of the year have been restated to correct an overstatement of estimated liquor board receipts in the prior year. The restatement has no effect on revenues in the current year.

	General Fund Balance	Governmental Activities Net Position
Balance, beginning of the year, as previously reported	\$ 7,513,853	\$ 10,078,511
Restatement of liquor board revenue	<u>(75,000)</u>	<u>(75,000)</u>
Balance, beginning of the year, as restated	<u>\$ 7,438,853</u>	<u>\$ 10,003,511</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NEW PRONOUNCEMENTS

GASB approved Statements No. 65, *Items Previously Reported as Assets and Liabilities*, which will require certain items that were previously reported as assets and liabilities to be reported as deferred outflows of resources or deferred inflows of resources. In addition, GASB Statement No. 65 will require the Town to write off any remaining unamortized bond costs. The Town will be required to implement GASB Statement No. 65 for the year ending June 30, 2014.

GASB also approved Statement No. 68 which will require the Town to provide additional information in the financial statements related to cost sharing pension plans. The Town will be required to implement GASB Statement No. 68 for the year ending June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BERLIN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
Revenues				
Taxes	\$ 3,205,000	\$ 3,205,000	\$ 3,390,839	\$ 185,839
Licenses and permits	132,600	132,600	173,906	41,306
Intergovernmental revenues	772,000	772,000	863,490	91,490
Service charges	613,030	613,030	655,583	42,553
Impact fees			4,000	4,000
Earnings on investments	91,100	91,100	79,972	(11,128)
Miscellaneous			21,798	21,798
Total revenues	<u>4,813,730</u>	<u>4,813,730</u>	<u>5,189,588</u>	<u>375,858</u>
Expenditures				
Current				
General government	1,584,364	1,841,724	1,392,519	449,205
Public safety	1,873,259	1,315,899	1,317,453	(1,554)
Public works	807,589	807,589	828,591	(21,002)
Planning and economic development	307,967	307,967	306,023	1,944
Recreation and parks	59,450	59,450	51,579	7,871
Debt service	180,101	180,101	761,137	(581,036)
Capital outlay	206,000	206,000	583,004	(377,004)
Total expenditures	<u>5,018,730</u>	<u>4,718,730</u>	<u>5,240,306</u>	<u>(521,576)</u>
Excess of revenues				
over (under) expenditures	(205,000)	95,000	(50,718)	(145,718)
Other financing sources (uses)				
Prior year surplus	205,000	205,000		(205,000)
Transfers out		(300,000)	(300,000)	
Net other financing sources (uses)	<u>205,000</u>	<u>(95,000)</u>	<u>(300,000)</u>	<u>(205,000)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ (350,718)</u>	<u>\$ (350,718)</u>

SUPPLEMENTARY INFORMATION

PKS & Company, P.A.

Pigg, Krahl & Stern

*Certified Public Accountants
& Advisors to the Community*

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**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

To the Mayor and Council
Town of Berlin, Maryland

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Report on Supplementary Information

Salisbury
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Our report on our audit of the financial statements that collectively comprise Town of Berlin, Maryland's basic financial statements as of June 30, 2013, appears on pages one and two. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Berlin, Maryland's basic financial statements. The supplementary information presented on pages 42 through 46 is presented for purposes of additional analysis and is not a required part of the financial statements.

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The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the portion marked "unaudited", has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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Other Matter

The prior year comparative information has been derived from the Town's 2012 financial statements and, in our report dated October 19, 2012, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
November 4, 2013

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013		2012
	Final budget (Unaudited)	Actual	Actual
Revenues			
Taxes			
Berlin property	\$ 3,019,000	\$ 3,020,413	\$ 3,329,110
County shared	33,000	45,432	44,633
State shared	150,000	273,204	244,685
Penalties and interest	3,000	51,790	82,097
Licenses and permits	132,600	173,906	184,442
Intergovernmental			
Federal		72,826	28,857
State	272,000	390,664	385,896
County	500,000	400,000	425,494
Service charges to other funds	593,030	592,970	537,570
Service charges, other	20,000	62,613	34,029
Impact fees		4,000	14,032
Earnings on investments	91,100	79,972	20,231
Miscellaneous		21,798	83,080
Total revenues	<u>4,813,730</u>	<u>5,189,588</u>	<u>5,414,156</u>
Expenditures			
Current			
General government	1,841,724	1,392,519	1,139,896
Public safety	1,315,899	1,317,453	1,825,914
Public works	807,589	828,591	840,836
Planning and economic development	307,967	306,023	334,021
Recreation and parks	59,450	51,579	43,932
Debt service	180,101	761,137	449,185
Capital outlay	206,000	583,004	215,986
Total expenditures	<u>4,718,730</u>	<u>5,240,306</u>	<u>4,849,770</u>
Excess of revenues over (under) expenditures	95,000	(50,718)	564,386
Other financing sources (uses)			
Prior year surplus	205,000		
Transfers out	(300,000)	(300,000)	(488,264)
Proceeds from issuance of long term debt			37,484
Net other financing sources (uses)	<u>(95,000)</u>	<u>(300,000)</u>	<u>(450,780)</u>
Net change in fund balance	<u>\$</u>	<u>\$ (350,718)</u>	<u>\$ 113,606</u>

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENDITURES
SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	<u>2013</u>	<u>2012</u>
Revenues		
Intergovernmental revenues	<u>\$ 8,970</u>	<u>\$ 36,729</u>
Total revenues	<u>8,970</u>	<u>36,729</u>
Expenditures		
Salaries and related	<u>8,246</u>	<u>22,137</u>
Total expenditures	<u>8,246</u>	<u>22,137</u>
Net change in fund balance	<u>\$ 724</u>	<u>\$ 14,592</u>

TOWN OF BERLIN, MARYLAND
SCHEDULES OF REVENUES AND EXPENSES
ELECTRIC FUND

YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	<u>2013</u>	<u>2012</u>
Revenues		
Service charges	\$ 5,823,279	\$ 5,398,712
Sales and services	40,974	39,849
Interest on delinquent accounts	40,097	47,511
Miscellaneous	2,010	34,796
Total revenues	<u>5,906,360</u>	<u>5,520,868</u>
Expenses		
Purchased power	3,133,262	2,783,257
Personnel expenses	610,204	620,064
Supplies and operating	373,216	389,332
Professional services	193,817	189,796
Contracted services	51,717	119,890
Insurance	15,316	18,394
Repairs and maintenance	25,841	48,274
Depreciation and amortization	481,579	591,284
General overhead	336,240	304,285
Total expenses	<u>5,221,192</u>	<u>5,064,576</u>
Operating income	<u>685,168</u>	<u>456,292</u>
Nonoperating revenues (expenses)		
Interest expense	(251,063)	(395,006)
Gain (loss) on disposal of assets	3,805	(6,949)
Net nonoperating expenses	<u>(247,258)</u>	<u>(401,955)</u>
Income before transfers	437,910	54,337
Transfers in		<u>750,914</u>
Change in net position	<u>\$ 437,910</u>	<u>\$ 805,251</u>

TOWN OF BERLIN, MARYLAND
SCHEDULES OF REVENUES AND EXPENSES
WATER FUND

YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Revenues		
Service charges	\$ 615,973	\$ 590,224
Sales and services	9,804	13,428
Interest on delinquent accounts	10,299	8,300
Miscellaneous	58,597	89,250
Total revenues	<u>694,673</u>	<u>701,202</u>
Expenses		
Personnel expenses	310,531	317,261
Supplies and operating	145,703	133,738
Contracted services	24,162	2,940
Insurance	5,910	1,907
Repairs and maintenance	15,865	30,586
Depreciation and amortization	123,004	125,918
General overhead	93,560	84,143
Total expenses	<u>718,735</u>	<u>696,493</u>
Operating income (loss)	<u>(24,062)</u>	<u>4,709</u>
Nonoperating revenues (expenses)		
Capital grants	55,000	
Interest income	1,039	9,609
Interest expense	(13,407)	(18,577)
Loss on disposal of assets		(332)
Net nonoperating expenses	<u>42,632</u>	<u>(9,300)</u>
Income (loss) before transfers and contributions	18,570	(4,591)
Transfers in		33,066
Capital contributions - special connection fees	13,275	148,680
Change in net position	<u>\$ 31,845</u>	<u>\$ 177,155</u>

TOWN OF BERLIN, MARYLAND
SCHEDULES OF REVENUES AND EXPENSES
SEWER FUND

YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Revenues		
Service charges	\$ 1,422,823	\$ 1,318,815
Sales and services	3,779	8,186
Hauler fees	81,010	75,150
Interest on delinquent accounts	20,935	17,739
Miscellaneous	2,874	14,408
Total revenues	<u>1,531,421</u>	<u>1,434,298</u>
Expenses		
Personnel expenses	580,428	580,691
Supplies and operating	401,443	322,467
Professional services	2,803	1,311
Contracted services	35,872	17,465
Insurance	13,550	12,356
Repairs and maintenance	39,777	12,330
Depreciation and amortization	1,287,145	957,495
General overhead	163,170	149,143
Total expenses	<u>2,524,188</u>	<u>2,053,258</u>
Operating loss	<u>(992,767)</u>	<u>(618,960)</u>
Nonoperating revenues (expenses)		
Capital grants	1,498,120	3,634,160
Interest income	1,577	713
Interest expense	(250,589)	(247,338)
Loss on disposal of assets	(2,642)	(406,326)
Net nonoperating revenues	<u>1,246,466</u>	<u>2,981,209</u>
Income before transfers and contributions	253,699	2,362,249
Capital contributions - special connection fees	36,783	388,665
Transfers in		108,270
Change in net position	<u>\$ 290,482</u>	<u>\$ 2,859,193</u>

GOVERNMENT AUDITING STANDARDS REPORT

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and Council
Town of Berlin, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Maryland's basic financial statements and have issued our report thereon dated November 4, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Berlin, Maryland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Berlin, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Berlin, Maryland's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs (13-01) that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Berlin, Maryland's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Berlin, Maryland's Response to Findings

The Town of Berlin, Maryland's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
November 4, 2013

SINGLE AUDIT REPORTS AND SCHEDULES

PKS & Company, P.A.

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INDEPENDENT AUDITORS' REPORT ON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Mayor and Council
Town of Berlin, Maryland

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

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We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated November 4, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

PKS + Company, P.A.

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Salisbury, Maryland
November 4, 2013

TOWN OF BERLIN, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Award	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Pass through program from Maryland Department of Housing and Community Development				
Community Development Block Grants (State's program and Non-Entitlement Grants in Hawaii)	14.228	MD-12-CD-5	\$ 65,500	\$ 65,500
<u>U.S. Department of Agriculture</u>				
Water and waste disposal systems for rural communities	10.760		1,037,350	131,927
<u>U.S. Department of Homeland Security</u>				
Disaster grants - public assistance	97.036	FEMA-4091-DR-MD	14,652	14,652
<u>U.S. Environmental Protection Agency</u>				
Pass through program from Maryland Department of the Environment				
Capitalization grants for clean water state revolving funds	66.458	WQPF11-674-24L	3,207,000	1,958,643
	66.458	WQBF11-674-24L	1,500,000	1,298,692
Total U.S. Environmental Protection Agency			4,707,000	3,257,335
Total expenditures of federal awards			\$ 5,824,502	\$ 3,469,414

See accompanying notes to schedule of expenditures of federal awards.

TOWN OF BERLIN, MARYLAND

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2013

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Town of Berlin, Maryland under programs of the federal government for the year ended June 30, 2013. The information presented in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Town.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

LOANS

For purposes of the schedule of expenditures of Federal awards, the value of Federal expenditures in the form of loans is calculated as the sum of the balance of loans from previous years for which the Federal Government imposes continuing compliance requirements plus the value of new loans received during the fiscal year.

The amount of federal loans outstanding at June 30, 2013 with continuing compliance requirements was \$10,675,516.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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To the Mayor and Council
Town of Berlin, Maryland

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Report on Compliance for Each Major Federal Program

We have audited the Town of Berlin, Maryland's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2013. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

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Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Berlin, Maryland, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Town of Berlin, Maryland is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
November 4, 2013

TOWN OF BERLIN, MARYLAND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013

There were no findings relative to the federal award programs reported for the year ended June 30, 2012.

TOWN OF BERLIN, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Summary of Audit Results

1. The auditor's report expressed an unmodified opinion on the financial statements of the Town of Berlin, Maryland.
2. One significant deficiency disclosed during the audit of the financial statements is reported in this schedule. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Town of Berlin, Maryland, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
3. The auditor's report on compliance for the major federal awards programs for the Town of Berlin, Maryland expresses an unmodified opinion on all major federal programs.
4. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
5. The program tested as a major program was:

66.458 Capitalization Grants for Clear Water State Revolving Funds
6. The threshold for distinguishing Types A and B programs was \$300,000.
7. The Town of Berlin, Maryland was determined to be a low-risk auditee.

Findings—Financial Statements Audit

SIGNIFICANT DEFICIENCIES

- 13-01 Criteria – Controls should be in place to detect, prevent, or correct misstatements in the Town's drafted financial statements.

Condition – Management relies on the auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements are reviewed and approved by management prior to their issuance. In addition, management relies on the auditor to perform certain tasks such as the calculation of accrued liabilities, update of depreciation schedules, and the posting of approved adjusting entries to the trial balance.

Effect – There is a danger that intentional fraud or unintentional errors could be made and not detected.

TOWN OF BERLIN, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)

YEAR ENDED JUNE 30, 2013

Cause – The external auditors cannot be a part of the Town's internal accounting controls and the management of the Town lacks the formal training and expertise to determine that the financial statements, especially the note disclosures, are in accordance with GAAP and new accounting standards, if any, are implemented.

Recommendation – None.

Auditee's response and planned corrective action – Management acknowledges the condition and has evaluated the cost vs. benefit of establishing internal controls over the preparation of the financial statements in accordance with GAAP, and has determined that it is in the best interest of the Town to outsource this task to its independent auditors.

Findings and questioned costs—Major Federal Awards Programs Audit

None